

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Intra-Departmental Correspondence

August 10, 2012

To: Julie Valverde
Director of Finance

From: Alan A. Matré
Chief of Audits



Subject: **TRANSIENT OCCUPANCY TAX REVIEW OF BEST WESTERN EXPO
INN AND SUITES**

We have performed the procedures enumerated below, which were requested by the Sacramento County Department of Finance, Tax Collection and Licensing Division (TCLD), solely to assist TCLD in evaluating Best Western Expo Inn and Suites' (1413 Howe Avenue, Sacramento, California 95825) (Best Western) compliance with section 3.08 of the Sacramento County Code for the period January 1, 2011 to December 31, 2011. TCLD's management is responsible for ensuring Best Western is in compliance with those requirements and the collection and reporting of Transient Occupancy Tax (TOT). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of TCLD's management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of Best Western's other operations, procedures or compliance with other laws and regulations. The procedures we performed are summarized as follows:

1. Reviewed the accounting system procedures pertaining to the recording and collection of room rental revenue and TOT tax.

Finding: Best Western does not have the proper procedures in place to accurately report room rental revenues and TOT tax. See Attachment III, *Comments and Recommendations*.

2. Reviewed and tested TOT tax returns and compared them to gross room revenues collected.

Finding: Best Western incorrectly reported TOT tax returns to TCLD. See Attachment III, *Comments and Recommendations*.

3. Reconciled the amount of TOT tax due to the amount reported by Best Western.

Finding: Best Western has unpaid TOT tax, penalties, and interest to TCLD in the amount of \$19,952.66. See Attachment I, *Schedule of Transient Occupancy Tax*.

4. Reviewed TOT tax returns received by TCLD for proper Best Western signatures and remittance dates.

Finding: Best Western submitted its February 2011, April 2011, and May 2011 TOT tax returns late to TCLD. See Attachment III, *Comments and Recommendations*.

5. Determined if the exemptions taken for government employees and long term guest occupancies, greater than 30 consecutive days, are properly reported per section 3.08.040 of the Uniform Transient Occupancy Tax ordinance.

Finding: Best Western incorrectly reported residency exemptions on its monthly TOT tax returns. Best Western over reported exemptions by \$70,539.96. See Attachment III, *Comments and Recommendations*.

6. Reviewed Sacramento Tourism Business Improvement District Fee Returns (STBID) submitted by Best Western to TCLD.

Finding: Best Western under reported room nights rented by 2,460 which equals an additional \$3,075 in STBID fees due. See Attachment II, *Schedule of Transient Occupancy Tax*. Also see Attachment III, *Comments and Recommendations*.

We were not engaged to, and did not perform an audit or examination, the objective of which would be the expression of opinions on Best Western's financial statements, schedules, or compliance with certain laws and regulations. Accordingly, we do not express such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the TCLD. It is not intended to be, and should not be, used by anyone other than TCLD's management. However, this report is a matter of public record and its distribution is not limited.

Attachments

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Schedule of Transient Occupancy Tax
For the Period January 1, 2011 to December 31, 2011

Schedule of Reported Room Rental Revenue Activities and TOT Tax Paid:

	Reported Net Room Revenue	Revenue Adjustments			Audited Net Room Revenue
		(Over)/Under Reported Revenue ¹	Exemptions ²	Complemen- tary Room Revenue ³	
January 2011	\$ 140,969.28	(18,468.00)	19,222.64	1,995.30	143,719.22
February 2011	88,868.99	1,054.05	(1,846.51)	147.80	88,224.33
March 2011	101,455.14	(92.50)	(928.86)	0.00	100,433.78
April 2011	124,124.72	(1,013.75)	31.04	73.90	123,215.91
May 2011	108,001.50	(326.76)	10,710.43	221.70	118,606.87
June 2011	109,298.66	(450.40)	(73.93)	1,034.60	109,808.93
July 2011	180,039.77	140.00	22,392.23	1,551.90	204,123.90
August 2011	94,129.81	(126.51)	13,096.39	517.30	107,616.99
September 2011	88,728.30	(1,342.76)	4,685.88	147.80	92,219.22
October 2011	114,916.27	(550.05)	1,080.00	147.80	115,594.02
November 2011	101,660.01	(375.00)	540.03	295.60	102,120.64
December 2011	71,335.41	(542.50)	1,630.62	221.70	72,645.23
Total	<u>\$1,323,527.86</u>	<u>(22,094.18)</u>	<u>70,539.96</u>	<u>6,355.40</u>	<u>1,378,329.04</u>

¹ Best Western over reported gross room revenues by \$22,094.18 per its Daily Report Detail Listing reports. The column represents the net over/under reported gross room revenues noted on the monthly TOT tax returns.

² Permanent residents and government patrons are exempt from the 12% TOT tax per section 3.08.020(4) of the County of Sacramento Uniform Transient Occupancy Tax code. Best Western over reported exemptions by \$70,539.96. Reported exemptions were \$147,856.23 for the period of January 1, 2011 to December 31, 2011. Actual exemptions noted on Best Western's Tax Exempt List report was \$77,316.27.

³ There were a total of 86 complementary room nights provided by Best Western. Complementary room revenues was based on the average daily room rate of \$73.90 per complementary room night. The \$73.90 rate was based on the average of the daily room rates noted on Best Western's Statistical Recap report for the period under review.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Schedule of Transient Occupancy Tax
For the Period January 1, 2011 to December 31, 2011

Schedule of TOT Tax:

	Audited Net Room Revenue	TOT Tax @12% ⁴	Penalties and Interest ⁵	Total TOT Tax, Penalties, and Interest	Total Payments Remitted ⁶	Current Amount Due
January 2011	\$ 143,719.22	17,246.31		17,246.31	16,916.31	330.00
February 2011	88,224.33	10,586.92	2,985.96	13,572.88	10,664.28	2,908.60
March 2011	100,433.78	12,052.05		12,052.05	12,174.62	(122.57)
April 2011	123,215.91	14,785.91	5,660.09	20,446.00	14,894.97	5,551.03
May 2011	118,606.87	14,232.82	4,730.47	18,963.29	12,960.18	6,003.11
June 2011	109,808.93	13,177.07		13,177.07	13,115.84	61.23
July 2011	204,123.90	24,494.87		24,494.87	21,604.77	2,890.10
August 2011	107,616.99	12,914.04		12,914.04	11,295.58	1,618.46
September 2011	92,219.22	11,066.31		11,066.31	10,647.40	418.91
October 2011	115,594.02	13,871.28		13,871.28	13,789.95	81.33
November 2011	102,120.64	12,254.48		12,254.48	12,199.20	55.28
December 2011	72,645.23	8,717.43		8,717.43	8,560.25	157.18
Total	<u>\$1,378,329.04</u>	<u>165,399.49</u>	<u>13,376.52</u>	<u>178,776.01</u>	<u>158,823.35</u>	<u>19,952.66</u>

⁴ Per section 3.08.030 (Imposed) of the Sacramento County Transient Occupancy Tax Ordinance, a 12% TOT tax is applied to qualifying net TOT revenues.

⁵ Per section 3.08.090 of the Sacramento County Transient Occupancy Tax Ordinance, a delinquency penalty of 10% is imposed of the total amount of TOT tax due for first and second month delinquencies. There was also an interest penalty of one and one-half percent per month on the original TOT tax due until the entire tax, including assessed penalties, is paid. As of April 2012, penalties and interest have yet to be remitted by Best Western. Penalty and interest amounts for February 2011, April 2011, and May 2011 are calculated on the original TOT tax reported. Best Western reported TOT in the amounts of \$10,664.28 for February 2011, \$14,894.97 for April 2011, and \$12,960.18 for May 2011.

⁶ Best Western remitted \$1,226.43 for February 2011's penalty and interest charges. February 2011's outstanding penalty and interest charges of \$2,985.96 is net of the \$1,226.43 amount paid.

County of Sacramento
 Department of Finance
 Tax Collection and Licensing Division
 Best Western Expo Inn and Suites
 Schedule of Sacramento Tourism Business Improvement District Fees (STBID)
 For the Period January 1, 2011 to December 31, 2011

	Reported Room- Nights <u>Occupied</u>	Recalculated Room- Nights <u>Occupied</u>	(Over)/ Under Reported <u>Rooms</u>	Remitted STBID Fees ¹	Recalculated STBID Fees ¹	Additional STBID Fees Due ¹
January 2011	1,879	1,909	30	\$ 2,348.75	2,386.25	37.50
February 2011	1,102	1,700	598	1,377.50	2,125.00	747.50
March 2011	1,280	1,391	111	1,600.00	1,738.75	138.75
April 2011	1,601	1,628	27	2,001.25	2,035.00	33.75
May 2011	1,460	1,619	159	1,825.00	2,023.75	198.75
June 2011	1,240	1,584	344	1,550.00	1,980.00	430.00
July 2011	2,210	2,876	666	2,762.50	3,595.00	832.50
August 2011	1,240	1,499	259	1,550.00	1,873.75	323.75
September 2011	1,350	1,343	(7)	1,687.50	1,678.75	(8.75)
October 2011	1,537	1,641	104	1,921.25	2,051.25	130.00
November 2011	1,240	1,408	168	1,550.00	1,760.00	210.00
December 2011	<u>1,047</u>	<u>1,048</u>	<u>1</u>	<u>1,308.75</u>	<u>1,310.00</u>	<u>1.25</u>
	<u>17,186</u>	<u>19,646</u>	<u>2,460</u>	<u>\$21,482.50</u>	<u>24,557.50</u>	<u>3,075.00</u>

¹ STBID Fees are calculated on a \$1.25 per room night tourism assessment fee.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Transient Occupancy Tax (TOT) Review
Comments and Recommendations
For the Period January 1, 2011 to December 31, 2011

Internal Control System for Reporting TOT Returns

Comment

Best Western Expo Inn and Suites (Best Western) does not have adequate internal control procedures to accurately report monthly TOT tax returns to the Tax Collections and Licensing Division (TCLD). Motel operators are required to submit accurate monthly TOT tax returns to TCLD. Best Western incorrectly reported: gross room revenue, exemptions, TOT tax, and Sacramento Tourism Business Improvement District Fees (STBID) for each month submitted for the period under review.

Recommendation

We recommend Best Western management implement internal controls in order to accurately report monthly TOT tax returns to TCLD.

Under Reported Net Taxable TOT Revenues

Comment

Best Western under reported net taxable TOT revenues for the period of January 1, 2011 to December 31, 2011. All TOT revenues should be reported to TCLD. Best Western over reported gross room revenue by \$22,094.18 and over reported exemptions by \$70,539.96. The net amount of under reported taxable revenues for the period was \$48,445.78. The additional TOT tax as a result of the under reported revenues was \$5,813.49.

Recommendation

We recommend Best Western report all required TOT revenues and remit additional TOT tax to TCLD in the amount of \$5,813.49.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Transient Occupancy Tax (TOT) Review
Comments and Recommendations
For the Period January 1, 2011 to December 31, 2011

Sacramento Tourism Business Improvement District (STBID) Fees

Comment

Best Western under reported STBID fees for the period of January 1, 2011 to December 31, 2011. Per section 3.98.050 of Sacramento City Ordinance 2000-051 (Classification of Hotel and Assessments Imposed), Best Western was required to collect \$1.25 per room per night from motel patrons and remit the collected fees to TCLD. Reported rooms rented for the period under review was 17,186, but noted room nights rented on Best Western's financial reports was 19,646. The 2,460 unreported room nights rented equals \$3,075 in additional STBID fees due to TCLD.

Recommendation

We recommend Best Western report all rooms rented and remit \$3,075 in additional STBID fees to TCLD.

Delinquent TOT Tax Payments, Penalties, and Interest

Comment

Best Western submitted its February 2011, April 2011, and May 2011 monthly TOT tax returns after the required due date to TCLD. The Sacramento County TOT Ordinance section 3.08.070 requires the reporting and submission of TOT tax returns and tax on or before the last day of the month following the close of the month for which the tax was collected. TCLD received February 2011's TOT tax return on April 5, 2011, April 2011's TOT Return form on June 1, 2011, and May 2011's TOT tax return on July 1, 2011. Outstanding TOT tax, penalties, and interest due as a result of the late submission of monthly TOT tax returns was \$13,376.52 through April 2011.

Recommendation

We recommend Best Western remit TOT tax, delinquency charges, and interest penalties in the amount of \$13,376.52 to TCLD.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Transient Occupancy Tax (TOT) Review
Comments and Recommendations
For the Period January 1, 2011 to December 31, 2011

Complementary Rooms

Comment

Best Western did not report the value of 86 complementary rooms provided to motel patrons. Per section 3.08.020, "Rent means the consideration charged, whether or not received, for the occupancy of space in a hotel valued in money, whether to be received in money, goods, labor or otherwise, including all receipts, cash, credits and property and services of any kind or nature, without any deduction there from whatsoever." The value of the complementary rooms was \$6,355.40. The resulting TOT tax on the value of the complementary rooms was \$762.65.

Recommendation

We recommend Best Western remit \$762.65 in TOT tax on the value of complementary rooms to TCLD.

Non-Qualifying Transient Occupancy Tax Exemptions

Comment

Best Western was claiming exemptions for customers that do not qualify under section 3.08.040(b) of the TOT Ordinance. Employees performing official duties for their city, county, state and federal government entities are exempt from the TOT tax. During our testing of exemption amounts claimed for the months of January 2011 and August 2011, we noted 10 of the 14 customers were not eligible to be claimed as exemptions. The 10 individuals noted were not performing duties for a qualifying city, county, state or federal entity. The resulting incorrect classification of exempt customers lead to an over reporting of exemption amounts and a corresponding under reporting of TOT taxes due.

Recommendation

We recommend Best Western comply with section 3.08.040(b) of the TOT Ordinance and accurately classify customers to be claimed as exemptions on the motel's TOT Tax Return form.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Transient Occupancy Tax (TOT) Review
Comments and Recommendations
For the Period January 1, 2011 to December 31, 2011

Supporting Documentation For Transient Occupancy Tax Exemptions

Comment

Best Western did not retain supporting documentation for gross revenue and exemption amounts claimed on its monthly TOT tax returns. Section 3.08.120 of the TOT Ordinance requires motel operators to retain records supporting monthly TOT tax returns for a period of three years. Best Western was unable to produce folio documentation for 11 of the 50 customers selected for gross revenue testing. Also, Best Western was unable to locate supporting documentation for 8 of the 14 exemption customers claimed during our testing.

Recommendation

We recommend Best Western comply with TOT Ordinance section 3.08.120 by retaining supporting documentation.

Transient Occupancy Tax Exemptions

Comment

During our review of Best Western's reported exemption amounts, we noticed a customer that was claimed as exemption being charged TOT tax. Per section 3.08.040(a) of the TOT Ordinance, "No tax shall be imposed upon any person as to whom, or any occupancy as to which, it is beyond the power of the county to impose the tax herein provided."

Recommendation

We recommend Best Western comply with TOT Ordinance 3.08.040(a) and not collect TOT tax on eligible tax exempt customers.

County of Sacramento
Department of Finance
Tax Collection and Licensing Division
Best Western Expo Inn and Suites
Transient Occupancy Tax (TOT) Review
Comments and Recommendations
For the Period January 1, 2011 to December 31, 2011

Housekeeping Supporting Documentation

Comment

Best Western did not maintain detailed supporting documentation related to its housekeeping activities as required by section 3.08.120 of the TOT Ordinance. Motel operators are required to maintain necessary TOT tax documentation that supports their monthly TOT tax returns for a period of three years. Best Western destroys detailed housekeeping records after summarizing motel room cleaning activities for the month.

Recommendation

We recommend Best Western comply with section 3.08.120 of the TOT Ordinance and retain supporting documentation related to its housekeeping activities.